

MAJOR* TAX EXPENDITURES

Ranked by 2006-2007 Projected State Revenue Loss (In Millions)

Rank	Provision	Fiscal Year 2004/05	Fiscal Year 2005/06	Fiscal Year 2006/07
1	Vehicle License Fees [AB 2797 (Cardoza) 1998; AB 1121 (Nakano) 1999; AB 511 (Alquist) 2000; AB 858 (Kuehl) 2000; SB 1096 (Committee on Budget & Fiscal Review) 2004]	4,451	4,600	4,788
2	Exclusion of Employer Contributions to Pension Plans (Federal Conformity) [Personal Income Tax (PIT)]	4,215	4,425	4,645
3	Mortgage Interest Deduction (PIT)	3,800	4,065	4,395
4	Exclusion of Employer Contributions to Accident and Health Plans (Federal Conformity) (PIT)	3,220	3,740	4,110
5	Food Products Exemption [Sales and Use Tax (SUT)]	2,993	3,150	3,308
6	Basis Step-up on Inherited Property (Federal Conformity) (PIT)	2,670	2,845	3,030
7	Gas, Electricity, Water, and Steam Exemption (SUT)	1,406	1,480	1,554
8	Exclusion of Capital Gains on the Sale of a Principal Residence (Federal Conformity) (PIT)	1,410	1,460	1,515
9	Charitable Contribution Deduction (Federal Conformity) (PIT) [Corporation Tax (CT)]	1,140	1,215	1,290
10	Prescription Drugs Exemption (SUT)	1,097	1,155	1,213
11	Real Property Tax Deduction (Federal Conformity) (PIT)	1,025	1,104	1,190

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12	Exclusion of Proceeds from Life Insurance and Annuity Contracts (Federal Conformity) (PIT)	1,100	1,130	1,160
13	Exclusion of Benefits Provided Under Cafeteria Plans (PIT)	970	1,020	1,090
14	Exclusion of Social Security Benefits (PIT)	1,000	1,000	1,000
15	Dependent Exemption Credit in Excess of Personal Exemption Credit (PIT)	848	886	925
16	Individual Retirement Accounts (Federal Conformity) (PIT)	605	670	740
17	Employee Business and Miscellaneous Expense Deduction (PIT)	630	670	715
18	Net Operating Loss Deduction (PIT) (CT)	434	695	662
19	Head-of-Household and Qualifying Widower Filing Status (Federal Conformity) (PIT)	580	610	642
20	Depreciation Amounts Beyond Economic Depreciation (Federal Conformity) (PIT) (CT)	510	530	545
21	Research & Development Credit (PIT) (CT)	451	483	517
22	Water's Edge Election (CT)	450	470	500
23	Self-Employed Retirement Plans (PIT)	340	370	440
24	Special Treatment for Economically Depressed Areas (PIT) (CT)	300	318	338
25	Animal Life, Feed, Seeds, Plants and Fertilizer, Drugs and Medicine Exemption (SUT)	278	293	308

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26	Exclusion of Miscellaneous Fringe Benefits (Federal Conformity) (PIT)	260	270	280
27	Child and Dependent Care Expenses Credit (PIT)	215	225	235
28	Medical and Dental Expense Deduction (PIT)	200	205	211
29	Teacher Retention Credit (PIT)	5	0	210
30	Accelerated Depreciation of Research & Experimental Costs (Federal Conformity) (PIT) (CT)	124	169	193
31	Exclusion of Interest on Federal Government Obligations (PIT)	155	167	181
32	Exclusion of Transportation Related Fringe Benefits (Federal Conformity) (PIT)	165	170	176
33	Self-Employed Health Insurance Premium Deduction (PIT)	118	136	157
34	Double-Weighted Sales Apportionment Formula (CT)	130	130	130
35	Farm and Forestry Equipment (SUT)	95	109	125
36	Renters' Credit (PIT)	114	119	124
37	Tax-Exempt Status for Qualifying Corporations (CT)	110	114	117
38	Senior Exemption Credit (PIT)	101	105	109
39	Exclusion of Employer Contributions for Life Insurance (Federal Conformity) (PIT)	103	103	103
40	Exclusion of Unemployment Insurance Benefits (PIT)	81	86	93

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41	Personal Property and Other Tax Deduction (Federal Conformity) (PIT)	81	84	87
42	Aircraft Jet Fuel Used By Common Carriers and Military Exemption (Fuel Tax)	70	74	78
43	Minimum Franchise Tax Exemption (CT)	66	68	70
44	Low-Income Rental Housing Expenses Credit (PIT) (CT)	49	56	64
45	Exclusion of Compensation for Injuries or Sickness (Federal Conformity) (PIT)	58	60	62
46	Exclusion of Scholarships, Fellowships, and Grants (Federal Conformity) (PIT)	57	62	62
47	Custom Computer Programs Exclusion (SUT)	45	48	50
48	Small Business Stock Capital Gain Exclusion (PIT)	44	47	49
49	Exclusion of Employee Child and Dependent Care Benefits (Federal Conformity) (PIT) (CT)	41	45	45
50	Leases of Motion Picture and Television Films and Tapes Exemption (SUT)	38	40	42
51	Employee Stock Ownership Plans (Federal Conformity) (PIT) (CT)	39	39	39
52	Exclusion of Meals and Lodging Furnished by an Employer (Federal Conformity) (PIT)	37	37	37
53	Exclusion of Employer-Provided Education Assistance (Federal Conformity) (PIT)	33	33	37

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54	Diesel Fuel Used in Agriculture Exemption (SUT)	31	32	34
55	Exclusion of State Lottery Winnings (PIT) (CT)	29	30	32
56	Bunker Fuel Exemption (SUT)	20	32	32
57	Printed Sales Messages Exemption (SUT)	26	27	29
58	Exclusion of Income Earned on Internal Revenue Code Section 529 Plans (Federal Conformity) (PIT)	21	25	29
59	Exclusion of Foster Care Payments (Federal Conformity) (PIT)	25	25	25
60	Diesel and Use Fuel Used By Transit Districts and Schools Exemption (Fuel Tax)	23	24	25
61	Student Loan Interest Deduction (Federal Conformity) (PIT)	10	10	25
62	Percentage Resource Depletion Allowance (CT)	22	22	22
63	Moving Expense Deduction (Federal Conformity) (PIT)	17	18	19
64	Teleproduction Exemption (SUT)	16	18	19
65	Subscription Periodicals Exemption (SUT)	15	16	17
66	Casualty Loss Deduction (PIT) (CT)	13	14	15
67	Perennial Plant Exemption (SUT)	10	11	14

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68	Expensing of Agricultural Costs for Soil or Water Conservation and Prevention of Erosion (Federal Conformity) (PIT) (CT)	12	12	12
69	Small Business Expense Deductions (Federal Conformity) (CT)	--	--	12
70	Credit Union Treatment (CT)	10	10	10
71	Limited Partnership Investment Source Rules (CT)	10	10	10
72	Natural Heritage Preservation Credit (PIT) (CT)	14	9	9
73	Joint Strike Fighter Property and Wage Credits (PIT) (CT)	35	22	8

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